



STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES
P.O. BOX 119
HONOLULU, HAWAII 96810-0119

MAR 25 2009

COMPTROLLER'S MEMORANDUM NO. 2009-05

TO: Heads of Departments

SUBJECT: Accounting Adjustment to Department Cash Due to Market Decline

Governmental Accounting Standards Board Statement No. 31 requires governmental entities to report certain investments at fair value. This memorandum establishes the State's policy regarding accounting adjustments to cash in the state treasury that are reported on departmental financial statements, to reflect a write-down of the State's investments, that are presented in the State's financial statements, to fair value. This write-down is related to Auction Rate Securities (ARS) held in the State's investment pool as of June 30, 2008.

This policy applies to all departments and agencies that issue stand alone departmental financial statements.

The State pools and invests all monies held in the state treasury, which in the Director of Finance's judgement, are in excess of the amounts necessary to meet the State's immediate requirements. Allocation of investment earnings is based on a department's equity interest in the pooled monies. Because the pool's investments are maintained at the statewide level, an allocation determines the accounting adjustment for departments. The allocation is based on the percentage of ARS to the total amount of cash available for investing at the statewide level. The resulting percentage multiplied by the write-down percentage will result in the percentage to be used to reduce the cash in state treasury reported on the department's financial statements. For June 30, 2008, the estimated percentage is 2.9%. The accounting adjustment can be calculated by multiplying the department's cash held in the investment pool by 2.9%. Additional write-downs, market recoveries and repayments that affect the recorded loss will be allocated to reporting entities in subsequent fiscal years.

Departments should consult with their external auditors to determine the effect this policy has on its financial statements. If a department needs to issue its financial statement before the actual loss is determined, we recommend that an estimated loss amount be recorded in FY08. Any difference between the estimated and actual loss should be recorded in next fiscal year

If you have any questions on the above, please call Wayne Horie of our Accounting Division at 586-0600.

A handwritten signature in black ink, reading "Russ K. Saito".
RUSS K. SAITO
State Comptroller